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Committee Passes Grassley Bill Reining in Corporate Expatriation

WASHINGTON – The Committee on Finance today passed bipartisan legislation from Sen. Chuck Grassley, ranking member, to prevent corporations from nominally moving overseas to avoid taxes.

“Recent corporate actions, such as Enron and its financial dealings, show the need for greater congressional oversight of some unacceptable corporate activities,” Grassley said. “The average individual taxpayer can’t skip out on his tax bill. He doesn’t have the luxury of setting up a filing cabinet and a mail box overseas to escape his federal taxes. The same should be true for corporations.”

The full Finance Committee on a voice vote approved Grassley’s *Reversing the Expatriation of Profits Offshore* (REPO) Act (S. 2119), which Grassley introduced with Chairman Max Baucus in April. The legislation reins in companies that set up sham foreign headquarters, such as in Bermuda, to avoid paying millions of dollars of federal taxes. In addition to being unfair to individual taxpayers who must pay their full share, corporate expatriation schemes erode the domestic tax base by creating phony deductions in the United States.

Grassley said the overseas deals draw attention to the shortcomings of international tax rules. “Companies that rejected these expatriation deals and loyally stayed in the United States are left to struggle with the complexity and burdens of our international tax rules. The flaws often hurt these companies’ ability to compete in the global marketplace. That’s an unjust result for companies that choose to stay in the United States. The U.S. international tax system should be in line with the nation’s open market trade policy, and the committee should reform our international tax system as soon as possible,” Grassley said.

The committee also approved on a voice vote the *Tax Shelter Transparency Act* (S. 2498), which Baucus and Grassley introduced last month. The measure will rein in abusive tax shelters designed to avoid paying taxes. For many years, tax shelter promoters and participants have played a game of hide-and-seek with the Internal Revenue Service, burying their shelters in layers of detail or simply sealing off detection through a web of conspiracy, Grassley said. This legislation will flush out tax shelters through mandatory disclosure regimes so the IRS can identify them and shut down illegal operations. “Disclosure is the best disinfectant,” Grassley said.

A third piece of legislation the committee approved today increases the number of tax breaks for charitable donations. In March 2001, Grassley as then-chairman convened a Finance Committee hearing to explore charities’ extensive needs and the best way to adjust the tax code to meet those needs. Witnesses included Dr. Mary Sue Coleman, president of the University of Iowa, who

expressed support for the President's plan to allow tax-free charitable gifts from individual retirement accounts, and a representative from America's Second Harvest, a national network of food banks, who expressed support for legislation that would provide a tax incentive for family farmers and businesses to donate food for humanitarian aid. At Grassley's encouragement, the legislation approved today includes:

- ▶ the creation of a trial program creating individual development accounts that will match savings by low-income families to help pay for a first home, college, or for starting a small business (based on an amendment offered by Grassley, Baucus and Sen. Orrin Hatch);
- ▶ allowing age-qualified individual retirement account (IRA) owners to roll over their account money to charity without paying taxes;
- ▶ an enhanced tax deduction for the contribution of food to food banks and other charities;
- ▶ an increased tax incentive to encourage the donation of books to schools, libraries and literacy programs;
- ▶ increased tax incentives to encourage the donation of land for conservation;
- ▶ increased tax incentives to encourage the sale of land for conservation purposes, because the sale of land for conservation under current law triggers a huge capital gains tax and for farmers in Iowa and nationwide, greatly discourages land conservation and diminishes their retirement income;
- ▶ and increased tax incentives to encourage landowner participation in the federal Partners for Fish and Wildlife program to conserve and restore fish and wildlife habitat, a program that is increasingly popular in Iowa.

"Charities have a lot of needs, and many Americans have a lot to give," Grassley said. "It makes perfect sense to make sure the tax code eases the flow of generosity from taxpayers to worthy causes."

Grassley said that while Congress works to provide new incentives for charitable giving, it also must help ensure that charities are accountable to donors and taxpayers. Toward that end, Grassley has requested a series of General Accounting Office reviews of charities' financial practices. He also is seeking comprehensive financial information from the American Red Cross, including its distribution of financial relief to the Sept. 11 victims.

Grassley secured "sunshine" provisions in the committee-considered charitable giving bill that would improve the usefulness and accessibility of information included in the tax returns of tax-exempt organizations to the public and to states, which police fraudulent charities.

Grassley urged the Senate Democratic leadership to take up the committee-passed legislation on corporate expatriation, tax shelters and charitable giving as soon as possible.